Why Investing in Technology is Key to Selling a Packaging Business

By Thomas J. Williams

NEW DIRECTION PARTNERS

A year with the world's two leading trade shows for packaging and printing is an ideal time to plan strategic investments in production technology.

With drupa 2024 about to begin, and with PRINTING United set to open its doors just a few months from now, the industry's attention naturally turns to acquiring new technology. Owners of packaging and printing businesses have a double interest: first, in the capabilities the technology will bring; and second, in the positive effect the investment can have on the valuation of the business when the time comes to sell.

In the industry as it operates today, capex investment isn't a maybe-yes, maybe-no proposition – it's a strategic necessity. The fact is that companies without sufficient investments in current technology are at a significant disadvantage in the M&A marketplace. One of the first things a buyer will spot in a preliminary review is any gap in the seller's ability to produce what it needs to stay competitive. That will have a negative impact on the terms the seller is offered, if terms are offered at all.

Buyers are especially keen to see what kinds of investments have been made in digital printing and finishing. Although digital came to the packaging segment later than it did to the commercial segment, nearly all of the digital OEMs now have solutions for paperboard, corrugated, and label manufacturing. This equipment opens new markets for packaging producers and lets them offer a broader range of services to the ones they already serve.

Think, for example, of the microbrewing industry: a collection of mostly small producers with a corresponding need for packaging and labels in short runs. They are natural customers for digitally printed and finished packaging, along with the multitudes of other kinds of small businesses that bring their products to market in limited batches.

Turnover and Timing

Digital isn't the only technology that packaging companies need to invest in: long-run producers have strengths to maintain in offset lithography and flexography as well. Investments in conventional equipment, however, have longer life cycles than digital investments, which tend to be more sensitive to timing as it relates to valuation for sale.

This is because digital technology changes rapidly: so rapidly that a device installed three to five years ago probably has reached the point where it is ready to be replaced with a more capable upgrade. In most cases, the right move for a selling owner of a packaging company will be to have the upgrade in place when the company is placed on the market.

That will appeal to potential buyers at the same time as it enhances the competitiveness of the business – a recipe for earning a premium multiple of EBITDA toward the selling price once negotiations are under way.

Given the relatively brief installed lifetimes of digital devices, leasing is usually a better option for acquiring them than purchasing them. Lease terms can include provisions for consumables, service, training, and software upgrades, simplifying the ownership experience for the user of the equipment. Another plus is that leasing costs are not recorded as long-term debt on the balance sheet.

Desirability of Debt

This isn't to suggest that there is anything wrong with taking on debt to finance investments that will make the company stronger and more productive. All successful businesses rely on long-term debt to sustain growth, a strategy that buyers understand and respect.

In fact, they fully expect to see a track record of capital expenditures for new equipment and technology meant to boost productivity and earnings. Private equity buyers in particular are not put off by debt on the balance sheet if they believe the debt has helped the selling company to develop capabilities it wouldn't have been able to finance on its own.

On the other hand, a company that is debt-free because it declined to invest will pay a price for its hesitation when the buyer's offer is reduced by whatever amount the buyer will have to spend to acquire technology the business should have, but doesn't. Strategic investment is critical – and the present year is one of the best that owners of printing and packaging companies have had for making these decisions in a long time.

Momentous Events

This is primarily because trade shows have finally regained their rightful place in the industry after the disruptions of COVID-19 earlier in the decade. Eagerly awaited after an absence of eight years is drupa, the world's largest exposition of technology for graphic media.

At the event's 2024 edition from May 28 to June 7, 1,427 exhibitors from 50 countries will fill 18 show halls at the Messe Düsseldorf fairgrounds in Düsseldorf, Germany. There, visitors can see literally everything that is new and on the horizon in printing and packaging, all in one place.

Those unable to attend drupa still have an exceptional opportunity to travel to Las Vegas for PRINTING United Expo 2024, North America's premier event for graphic technologies and products of all kinds. The show (September 10-12) is unique in bringing together all forms of graphic imaging and reproduction, with a heavy emphasis on the digital solutions that have become so essential for success in packaging.

Watch *Packaging Impressions* for coverage of both events, and plan to invest accordingly. Part of the ROI will come when the equipment goes to work. The rest will be reflected in the favorable terms the seller will enjoy in the sale of the business to a new owner..

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